

ICR 1

Office of the Executive Vice President for Finance and Administration
December 5, 2023

Members, Investment Committee of the Board of Trustees:

REVISED ENDOWMENT INVESTMENT POLICY

Recommendation: that the Investment Committee of the Board of Trustees approve the attached revisions to the Endowment Investment Policy.

Background: The revised policy reflects the following minor changes:

- Section III reflects a new title for a promoted Investment Staff member.
- Section III and V reflect an updated department name.

Action taken: Approved Disapproved Other _____

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS

ENDOWMENT INVESTMENT POLICY

Amended December ~~512~~, 202~~2~~3

**University of Kentucky
University of Kentucky Research Foundation
University of Kentucky Gluck Equine Research Foundation, Inc.
University of Kentucky Humanities Foundation, Inc.
University of Kentucky Mining Engineering Foundation, Inc.**

The investment policy shall be formally reviewed annually and at such other times as desired by the Committee and Endowment investment staff. Any modifications to the policy shall be approved by the Committee.

III. Roles and Responsibilities

Responsibilities of the Investment Committee

The Board of Trustees has established the Investment Committee with members appointed annually by the Chair of the Board of Trustees. The Committee is responsible for the review and oversight of the Endowment investments of the University of Kentucky and its affiliated corporations.

Governing Regulation II, E, (2) (f) of the University of Kentucky sets forth the specific responsibilities of the Investment Committee as follows:

Under delegation from the Board of Trustees, and consistent with KRS 164A.550 through 164A.630, the Investment Committee is responsible for review and oversight of the endowment investment programs of the University and its affiliated corporations. These responsibilities include: formulating and reviewing investment policies; appointing, monitoring and evaluating investment managers and consultants; and reviewing and approving plans for the general management of the endowment funds of the University.

The membership of the Committee shall be composed of five (5) voting Trustee members and up to five (5) non-voting Community Advisory members to assist it in its functions by providing specialized advice and support. Said Community Advisory Members shall be selected on the basis of their expertise in such areas as investment management and finance, and appointed for a three-year term. Community Members may be reappointed. The membership of the Committee, including the Chair, shall be appointed by the Chair of the Board of Trustees in consultation with the President. The initial Trustee member appointments to the Committee shall be staggered terms in the following manner: two (2) members for three (3) years, two (2) members for four (4) years, and one (1) member for five (5) years. Trustee members appointed thereafter shall serve for three-year terms and may be reappointed.

The Investment Committee Chair reports to the Board of Trustees after each meeting of the committee on the performance results of endowment investments. Policies of the committee are implemented by ~~the University Financial Services Office of the Treasurer~~ the University Financial Services Office of the Treasurer in carrying out the day-to-day operations of the

University's endowment funds.

Responsibilities of Investment Staff and Endowment Advisory Group

Investment Staff

The senior Endowment investment staff ("Staff") will consist of the University's Executive Vice President for Finance and Administration, Chief Investment Officer, and Investment ~~Officer~~Director. Staff is responsible for executing the policies and decisions enacted by the Committee and the general daily activities and administration of the Endowment assets. The Staff will prepare analysis and recommendations for the Committee on development of policies and guidelines, selection of an appropriate long-term asset allocation, and selecting an appropriate manager structure. The Staff will perform other duties as delegated by the Committee. The Staff will maintain summaries of the investment guidelines for the various investment managers and periodically provide to the Committee.

Endowment Advisory Committee

An Endowment Advisory Committee of senior University administrators and faculty may be established by the President to advise the Executive Vice President for Finance and Administration and Staff on various matters pertaining to the prudent management of individual endowment funds.

Responsibilities of Investment Consultant

The Committee may engage an independent Investment Consultant ("Consultant") to assist the Committee and Staff in developing policies and guidelines, selecting an appropriate long-term asset allocation, selecting an appropriate manager structure, identifying investment managers, evaluating investment performance, and offering other services as requested. The Consultant will prepare quarterly and annual assessments of investment performance that include results for the total endowment and each individual investment manager compared to appropriate market indices and manager universes. The Consultant will also periodically provide in-depth and detailed analysis of each manager's portfolio.

Responsibilities of Investment Custodian

The Committee will engage an Investment Custodian ("Custodian") for the University's endowment investments. The Custodian will establish and maintain direct account relationships with each investment manager and perform core custodial functions, including security safekeeping, collection of income, processing and settlement of trades, collection of proceeds of maturing securities, distribution of income, and daily investment of cash. The Custodian will provide account statements and other reports as requested by the Staff.

Underwater Endowment Funds²

The target spending distribution rate and management fee established by the Investment Committee represent maximum amounts that can be withdrawn annually from individual endowment funds. The Treasurer may reduce or suspend withdrawals from individual endowment funds that are underwater.

Spending distributions and management fee withdrawals will be suspended on all endowments underwater by more than 20%. Endowments underwater more than 10% will undergo a formal review by University Financial Services~~the Office of the Treasurer~~ and appropriate College Dean to determine the appropriate level of spending distributions in accordance with the following factors set forth in the Kentucky Uniform Prudent Management of Institutional Funds Act:

- the duration and preservation of the endowment fund;
- the purposes of the institution and the endowment fund;
- general economic conditions;
- the possible effect of inflation or deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the institution;
- the investment policy of the institution.

The Treasurer has authority to approve exceptions of the policy to suspend spending distributions and management fee withdrawals on certain quasi and term endowments that are underwater by more than 20%.

New Endowment Funds

Spending distributions on new endowment funds will be delayed for at least one year in order to build a reserve for future spending distributions.

VI. Investment Policies

Diversification

Disciplined management of the asset allocation is necessary and desirable. Diversification of investments among assets that are not similarly affected by economic, political, or social developments is highly desirable. The general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset or investment category.

Asset Allocation

To ensure broad diversification, the asset allocation will be set with the following target percentages and within the following ranges: